

## **EXHIBIT 16**

### **Receiver Transition Report - Holiday Inn Express**

## Transition Report

Property: Holiday Inn Express Saginaw  
Address 2501 Tittabawassee Road Saginaw Michigan  
Start date of transition: August 7, 2009

### SUBJECT PROPERTY

The subject property is a 98-room Holiday Inn Express and Suites located in Saginaw Michigan. It is surrounded by local office buildings and situated next to a local outpatient hospital. It is situated within the main office and shopping area for the community. The population of Saginaw is approximately 187,000 with 14.6% unemployment. The city's economy is driven by the automotive industry, which closed a manufacturing plant in Saginaw. The immediate area surrounding the hotel is comprised of a shopping mall, restaurants and local office buildings.

On August 7, 2009, Hostmark Hospitality Group was appointed the Receiver for the property by Court Order. Present at the property for Hostmark on that day was Tom Schulz and Derek McElroy to oversee operations, Ida Pesce-Figueroa to observe sales and marketing, and Timir Mehta to oversee financial reporting and accounting-related issues.

### INITIAL OBSERVATIONS ON TAKEOVER

#### MANAGEMENT AND ACCOUNTING

Hostmark was informed that the property was operating without a management company qualified by the lender or the franchise company since its previous management company terminated its agreement with the Owners in late February of 2009. The operation was staffed at the most minimal levels with both the General Manager and Director of Sales each working five shifts a week at the front desk to ensure desk coverage. Guest satisfaction scores are low. The result of this decision by ownership is a potential disaster for future revenue; particularly in 2010.

Upon Hostmark's arrival, it was discovered that an accounting or payroll service was not being utilized to generate monthly financials or to process payroll. The staff at the Sheraton Four Points, located across the street, performed rudimentary accounting and payroll functions through the use of Quickbooks. The hotel has not produced any detailed financial statements since March, 2009, when the previous qualified management company resigned due to failure of ownership to insure funds for the payment of payroll. An inspection of the information posted to Quickbooks could not be readily verified because the property informed Hostmark personnel that they were under instructions to destroy all purchase orders and payment records.

An inspection of the information posted to Quickbooks concluded that the information was not properly recorded and/or identified. Accounting functions are being handled by hotel personnel that have no background in bookkeeping. Further investigation of this issue will need to be undertaken as the time did not allow for a full and complete audit of the entries. It is evident, however, that financial reporting was not performed according to Uniform System of Accounts for the Lodging Industry, nor even GAAP. There were no controls, procedures or mechanisms in place for house banks, the inventory of supplies or master keys. Hostmark put

into effect an inventory system that would track usage and secure materials. A master key system was instituted to account for all master keys in use, and procedures were set forth for house banks. New bank accounts were started to cover payroll and operating expenses. Hostmark is currently administering payroll and has placed the property on its financial reporting system.

An inspection of the accounting records at the Hotel shows that Ownership distributed to the Owners \$384,398.00 in 2008 and \$260,000.00 in 2007. This was surprising since Owners had implemented cost cutting systems in 2009 which were negatively impacting the hotel room cleanliness, sales efforts and thereby the gross operating revenues. The 2008 distribution was particularly surprising in light of the net profit for 2008 being only \$331,703.00. (See Exhibit A)

## SALES AND MARKETING

As earlier stated, the property's General Manager and Director of Sales have been covering shifts at the front desk because ownership severely cut back on staff to save on wages. This is in part the reason that 2009 revenue is down both actual/projected by \$296,000 for calendar year 2009.

The property's sales manager also fills in for many open shifts at the front desk. It is Hostmark's recommendation that 2 front desk agents be hired as soon as possible to relieve the managers of their shifts and to focus on the primary objectives of their positions. Despite this shortage, the property has a fair amount of repeat and loyal guests. Its YTD occupancy is 72% versus its competitive set of 60%, average daily rate is \$83 versus the comp set at \$72. A problematic metric, however, is the increased amount of Regrets the property accumulated during this past year (see Exhibit B). The IHG flag appears to be very popular and is well recognized in the area. However, it appears that through a lack of direction and training, the property is not taking advantage of the many IHG programs that tap into brand clients, and therefore have missed many opportunities. Sales personnel appear to be responding more to inquiries than proactively seeking new business. The property has a 1,000 sq foot banquet/meeting space that appears to be underutilized. The recent opening of a new generation Springhill Suites in the area will have a definite negative impact on the property. During the first few days of Hostmark's involvement, the General Manager, Director of Sales and Human Resources manager were put through sales orientation, which outlined responsibilities and procedures and included an introduction and inclusion into Hostmark's proprietary sales programs. A revenue team was formed and a meeting was conducted detailing Hostmark's standards. The Director of Sales will be contacting regional IHG reps for monthly data reports and work on key word marketing search programs within IHG to drive additional people to the property's website. The need for an experienced Business Travel sales manager has also been raised. The challenge comes from other hotels spreading rumors that this hotel will be closed because of the receivership and there is no one making sales calls to refute that guerilla sales tactic by the competition.

## PHYSICAL PLANT

The property was built in 2001, went through a renovation in 2006 and is in relatively good condition. Overall it is an attractive property with new re-launched signage. In a recent franchise inspection completed just days ago, the property passed with regards to its overall cleanliness and condition and overall basic status. It did not, however, pass on its Life Safety and Overall Brand Integrity Status (see Exhibit C). The recent property improvement package addressed surface issues, but did not address some that are now resulting in problems for the property. They include:



- The lack of ventilation on the second floor hallway is causing minor mold and mildew issues in guest bathrooms;
- Mold issues in 6 guest rooms that have been covered but not remediated properly;
- Motors to the solarium roof are burned out, thereby decreasing ventilation to the indoor pool area. Pool solarium canopy constructed of aluminum and plastic offers little insulation value. This causes severe moisture build-up (sweating) in the winter which damages the drywall to the ceiling. The HVAC and dehumidifier unit for the pool area is undersized and unable to keep up with the humidity from the indoor pool;
- HVAC unit for guest room corridors is not in service resulting in uncomfortably hot or cold extremes and inadequate intake of fresh air. The unit's side panel has been left opened for quite a while and is now filled with bird droppings;
- Floor grouting in 11 bathrooms failed, resulting in buckling bathroom tiles.
- Hallway wall vinyl is in poor condition on all floors and will most likely fail future franchise inspections; and
- The original mattresses and box springs are in worn condition but were covered with pillow top mattresses three years ago. It is likely that these items will not pass in the next franchise inspection.

It appears that the property has no current contracts with any companies that perform Life Safety testing. Companies are not scheduled for mandatory testing and only called upon when needed. As a result, deficiencies in the recent Life Safety inspection that the franchise performed included:

- Trouble light illuminated on Alarm panel; 6 month test not performed and no documentation of previous tests;
- Quarterly test on guest room smoke detectors not done; testing expired and no test documentation available for review; and
- Sprinkler test not performed; 3<sup>rd</sup> party test required on system expired, test results or documentation not available for review.

In addition, exterior windows in guest rooms measure 14 to 20 inches above the floor and could be opened by guests and allow them to walk on to the roof. Not only was this a safety issue for guests who could fall, but also the unexpected weight on the roof and the many cigarette butts left there could easily compromise the structure. The Fire Marshall was contacted for approval and the windows are in the process of being secured by the in-house maintenance staff.

Prior to the recent inspection, storage problems that were in direct violation of fire codes were also addressed by the receiver. The majority of the storage closets were not maintained or organized properly, which in many cases were fire hazards. In some instances storage of flammable items were in the area of, and even laid against boilers and electrical panels. In some cases too many items were stored much too close to electrical panels (see Exhibit D). To date all of these items have been removed and organized into areas far from heat sources

FF&E within the rooms are original and in relatively poor and tired condition. The property recently passed franchise inspection without notation to the FF&E; however, its replacement will likely to be required within a year. Other areas on the property that will require attention include:

- The furniture in the breakfast area is original and slightly worn and does not match the recently replaced lobby furniture;
- The parking lot requires patchwork and the entire lot will need to be resealed and resurfaced within the next year;

- The Lobby entry automatic door is currently broken, but is scheduled for repair;
- Edifice/stucco exterior facade trim needs minor repair due to weather and bird damage; and
- One of the two rooms containing Murphy beds should be converted into a regular guest room. The remaining room is configured in such a way that it does not allow for a conversion.

As earlier stated, staffing is held to a minimum with Executive Staff members working dual positions at the Sheraton Four Points across the street in addition to covering shifts at the front desk. The direction and training that a management company would normally provide is sorely lacking. Michelle Murlick is the Area Manager for the properties and is the working General Manager for the Sheraton Four Points. While Ms. Murlick oversees the operations and handles the majority of decision making for the properties, it appears that there was no sense of accountability prior to Hostmark's involvement. It is evident that a structured environment that is based on performance and accountability must be developed and enforced. Josh Pifer, the General Manager for the properties, has only been in that position for a year and a half and was previously the Front Desk Manager. He is young and eager to learn. His strength for the most part is in operations, and he has limited experience in sales. Ms. Murlick has been a major force in his development and guidance, and appears to work very well with him.

## ACCOUNTING ISSUES:

## Financial Condition at takeover:

## Assets:

Cash on Hand	1,500.00	
<i>Accounts Receivables</i>		
Guest Ledger	15,615.95	
City Ledger	15,290.71	30,906.66
Cash in Bank	205,496.95	
Total Current Assets	237,903.61	

## Liabilities:

Advance Deposits	1,141.67	
<i>Accounts Payable</i>		
Misc Payables	44,195.78	
Franchise Fees - July	27,551.68	
Taxes - Sales & PR - July	19,005.23	
Property Taxes	62,214.40	152,967.09
Payroll p/e 7/31	15,713.07	
Payroll est 8/1 - 8/6	8,208.59	
<b>Total Current Liabilities</b>	<b>178,030.42</b>	

**Working Capital****59,873.19**

- Daily reports – were completed by Night Audit and were sometimes not balanced, missing information, etc. Taxes were not balanced daily or monthly, exempts were not accurately recorded or balanced.

- Taxes – An outside accounting firm calculated and remitted taxes (sales and occupancy) based on the daily reports prepared by Night Audit which were not always accurate.
- Gift shop – Inventory was not being taken monthly. There was no storage space allocated for excess inventory (par stock) items and was unsecure.

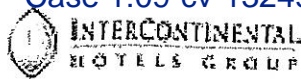


**Exhibit A**

**SAGINAW HOLIDAY INN EXPRESS**  
**Balance Sheet**  
**For the Month Ended December 31, 2008**

	<u>12/31/08</u>	<u>11/30/2008</u>	<u>12/31/07</u>
<b>Current Assets</b>			
Change Funds	\$750	\$750	\$750
Managers Account	1,082	947	2,576
Owners Accounts	54,934	127,240	99,956
Restricted Cash	232,512	217,918	289,845
Regular Securities			
Restricted Securities			
Restricted Interest Receivable			
Accounts Receivable	37,846	29,171	17,531
Guest Ledger			
Inter Company Receivables	14,728	14,476	3,391
Other Receivables	102,451	55,060	59,005
Inventory			
Prepays	14,154	21,484	23,613
<b>Total Current Assets</b>	<u>458,457</u>	<u>467,046</u>	<u>496,667</u>
<b>Property &amp; Equipment</b>			
Land			
Land Improvements	21,885	15,303	15,303
Accum Depr - Land Improvement			
Buildings	7,584,416	7,584,416	7,562,500
Accum Depr - Buildings			
Plant & Equipment	12,758	12,758	2,243
Accum Depr - Plant & Equip.			
Room Furnishings	331,786	252,938	39,285
Accum Depr - Room Furnishing			
Office Equipment	25,879	25,879	17,995
Accum Depr - Office Equipment			
Telephone Equipment			
Accum Depr - Telephone Equip			
Maintenance Equipment			
Accum Depr - Maint Equipment			
Restaurant Equipment			
Accum Depr - Restaurant Equip			
Auto and Truck			
Accum Depr - Auto & Truck			
Lounge Equipment			
Accum Depr - Lounge Equip			
Spa/Marina Equipment			
Accum Depr - Spa/Marina Equip			
Vending Equipment			
Accum Depr - Vending Equipment			
Signs	12,097	12,097	2,650
Accum Depr - Signs			
<b>Net Property &amp; Equipment</b>	<u>7,988,820</u>	<u>7,903,390</u>	<u>7,639,975</u>
<b>Other Assets</b>			
Other Assets			
Loan Costs - Hotel	162,504	162,504	162,504
<b>Total Other Assets</b>	<u>162,504</u>	<u>162,504</u>	<u>162,504</u>
<b>Total Assets</b>	<u><u>\$8,609,781</u></u>	<u><u>\$8,532,940</u></u>	<u><u>\$8,299,147</u></u>





## Exhibit B

CONFIDENTIAL

## Committee Summary

## SAGINAW

<b>Location #:</b> 7108	<b>HI Open Date:</b> 6/11/2001	<b>PC Name &amp; Address:</b> Kevin Golshan 12121 Wilshire Blvd #1112 Los Angeles, CA 90025
<b>Holidex Code:</b> MBSMI	<b>Current Owner Open:</b> 11/30/2006	
<b>Brand:</b> HEXS	<b>License Execution:</b> 11/30/2006	
<b>Rooms:</b> 98	<b>License Expiration:</b> 11/30/2016	

## Summary Information

Hotel Statistics	2006	2007	2008	YTD 07/08	YTD 07/09	YTD VAR %
OCCUPANCY	77.9%	77.8%	77.9%	77.1%	72.6%	-6%
ADR	\$79.53	\$83.47	\$86.25	\$84.95	\$83.16	-2%
RPAR	\$61.99	\$64.98	\$67.16	\$65.50	\$60.36	-8%
ROOM REVENUE	\$2,211,374	\$2,324,235	\$2,408,950	\$1,367,276	\$1,248,139	-9%
FOOD BEV REV	\$4,687	\$3,867	\$4,683	\$2,890	\$1,163	-60%
STAR OCC. *	64.4%	70.8%	68.7%	68.4%	59.8%	-13%
STAR ADR *	\$67.71	\$72.67	\$76.98	\$76.99	\$74.23	-4%
STAR RPAR *	\$43.59	\$51.44	\$52.86	\$52.64	\$44.40	-16%
PCT RMS SOLD (HOLIDEX)	38.9%	36.6%	37.7%	36.8%	30.9%	-16%
PCT RMS AVL (HOLIDEX)	30.4%	28.5%	29.3%	28.4%	22.5%	-21%
DENIALS	967	781	551	258	232	-10%
REGRETS	2,874	3,093	3,081	1,440	1,769	+23%

\* STAR data is YTD 05/09

## Operating Stats

Month	Occ %	ADR \$	RPAR \$	Room Revenue	Rooms Sold	Rooms Avail	Percent Rooms Sold
07/09	73.5	84.49	62.10	188,674	2,233	3,038	0.0%
06/09	73.2	87.01	63.72	187,336	2,153	2,940	34.7%
05/09	64.3	87.62	56.30	171,034	1,952	3,038	39.8%
04/09	62.8	83.65	52.55	154,494	1,847	2,940	31.2%
03/09	85.7	79.25	67.96	206,450	2,605	3,038	41.6%
02/09	76.2	79.57	60.59	160,328	2,015	2,646	38.3%
01/09	72.5	81.63	59.19	179,823	2,203	3,038	31.2%
12/08	65.5	85.86	56.21	170,775	1,989	3,038	33.2%
11/08	76.3	84.09	64.13	188,537	2,242	2,940	39.4%
10/08	82.7	89.23	73.81	224,233	2,513	3,038	41.3%
09/08	83.0	89.21	74.07	217,757	2,441	2,940	40.0%
08/08	87.2	90.71	79.12	240,372	2,650	3,038	39.1%
07/08	78.2	86.33	67.49	205,038	2,375	3,038	41.5%
06/08	82.6	85.96	70.96	208,624	2,427	2,940	35.9%
05/08	74.4	87.28	64.90	197,156	2,259	3,038	34.7%
04/08	83.1	82.97	68.98	202,789	2,444	2,940	34.4%
03/08	77.3	85.03	65.69	199,575	2,347	3,038	38.0%
02/08	78.7	84.21	66.25	188,286	2,236	2,842	34.6%
01/08	66.1	82.61	54.58	165,808	2,007	3,038	38.8%
12/07	61.5	77.41	47.60	144,599	1,868	3,038	34.4%
11/07	81.2	85.40	69.31	203,761	2,386	2,940	38.9%
10/07	88.2	85.33	75.27	228,677	2,680	3,038	39.9%
09/07	80.9	84.76	68.56	201,562	2,378	2,940	36.5%
08/07	87.9	84.88	74.59	226,618	2,670	3,038	36.9%



## Exhibit C

Property Name: **SAGINAW**  
 Location #: **7108**  
 HOLDEX Code: **MBSM1**  
 Visit Type: **HGP**  
 Assigned To: **Laurice Boley**  
**laurice.boyley@hna.com**  
**574-329-6600 - phone**  
 Visit Started On: **September 1, 2009**



## Visit Summary

## Quality Evaluation

## Life Safety and Brand Integrity Standards

## UNACCEPTABLE/CONSECUTIVE ITEMS:

- Fire Detection & Alarm System: Unacceptable. A violation occurred, i.e. Trouble Light Illuminated on Alarm Panel, 3rd Party Test required every 6 months expired, Deficiencies were listed on "Test Report or Test documentation was not available for review, etc. Comply as outlined in the Major Standards Violation Notification-Life Safety form within 10 days.
- Smoke Detector: Guestroom In-House Quarterly Testing Unacceptable. A violation occurred, i.e. Testing expired or Test documentation was not available for review. Hotel to conduct testing and document with date and name of person testing smoke detectors, update QUEST and attach to testing information within 10 days.
- Sprinkler Test System: Unacceptable. A violation occurred, i.e. 3rd Party test required every 6 months expired. Deficiencies were listed on "Test or Test documentation was not available for review, etc. Comply as outlined in the Major Standards Violation Notification-Life Safety form within 10 days.

## Overall Life Safety and Brand Integrity Standards Status:

FAIL

## Hotel Cleanliness and Conditions

Area Evaluated	Cleanliness	Conditions
Commercial Areas	PASS	PASS
Employee Areas	PASS	PASS
Food & Beverage	PASS	PASS
Guestroom Areas	PASS	PASS
Public Areas	PASS	PASS
Recreation Areas	PASS	PASS
Overall Hotel Cleanliness and Condition Status		PASS



## Exhibit D





## Exhibit D

